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CLICK HERE FOR THE CEO's REPORT DATED SEPTEMBER 11, 2007

CLICK HERE FORTHE CEO's REPORT DATED FEBRUARY 21, 2008

CLICK HERE FOR THE CEO'S REPORT DATED SEPTEMBER 8, 2008

CLICK HERE FOR THE CEO'S REPORT DATED NOVEMBER 13, 2008

CLICK HERE FOR THE CEO'S REPORT DATE SEPTEMBER 24, 2009

County of Los Angeles
CHIEF EXECUTIVE OFFICE
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LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

September 11, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

ADDITIONAL INFORMATION REGARDING ITEM 43 ON THE SEPTEMBER 11, 2007 BOARD AGENDA -- MERCER OPINION ON KAISER RATES FOR 2008

Board policy requires that the County and its consultant, Mercer Human Resource Consulting, render an opinion on the justification of premium rates for group health, dental and life insurance plans proposed to the Board for approval.

The opinion expressed by Mercer in Attachments A and B of the Board letter recommending group insurance premiums for 2008 is "qualified" regarding the Kaiser rates, pending receipt of additional information requested from Kaiser. Mercer received an information package from Kaiser on September 4, 2007.

As indicated in the attached report, Mercer did not find information in the Kaiser package that materially alters its opinion concerning the justification for Kaiser's 2008 rates. In its report, Mercer provides recommendations for improving Kaiser reporting practices in future rate renewals, and suggests that they be pursued with Kaiser.

We continue to recommend approval of the offered Kaiser premium rates for 2008 as there is no viable alternative at this time for covering the tens of thousands of employees and their dependents currently enrolled in the plan.

WTF:SRH
DL:WGL:FF:df

c. Executive Office, Board of Supervisors
County Counsel
Director, Department of Human Resources

Attachment

K:\2007 Word Chron\Comp Class\Board info memo re Kaiser 2008 rates1.doc

MERCER
Health & Benefits

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September 10, 2007

Marian Hall
Chief of Employee Benefits
County of Los Angeles
3333 Wilshire Boulevard, Suite 1000
Los Angeles, CA 90010-4101

Subject:
Kaiser's Utilization Analysis

Dear Marian,

This letter summarizes our review and opinion of the utilization analysis delivered by Kaiser on September 4. The reports provided by Kaiser for the Non-represented and Represented plans almost exclusively contained materials previously presented by Kaiser, either during the renewal process or, in the case of the Represented plans, in the quarterly plan review meetings held over the past year. For the Non-represented plan, Kaiser's most recent analysis does provide some new information about pharmacy costs, medical plan utilization in the areas of maternity, increases in the average length of inpatient stays for some conditions, and the impact of high claims on the number of inpatient days per 1,000 County members. Overall the new information does not impact our assessment of Kaiser's renewal as outlined in our previous 2008 renewal summary letters to the County dated August 23, 2007.

Kaiser's analysis has moved further down the road of identifying changes in year over year utilization. The information provided is improved upon that submitted a year ago and their reporting (as provided this past year for the Represented plan) affords a better opportunity to understand underlying chronic conditions in the population. Assuming that Kaiser does not significantly change its coding or basis for charging fees, this utilization information will establish a baseline for measurement of future utilization and cost changes. Based on our prior audits of Kaiser's data, there is no indication that their results are based on invalid utilization information.

However, the analysis still falls short of determining the net impact of utilization changes on the renewal – and whether the utilization changes can be expected to continue. Although Kaiser has provided some statistics about the results of year over year utilization changes, they are not able to answer why it changed so significantly. We know that some fluctuations and random events are expected in any population, but because Kaiser enrolls such a large County population, the magnitude of the fluctuations observed over the last year is not expected. Kaiser is also an integrated system – both managing and delivering the care, and reporting on it. We expect Kaiser to be able to leverage the power of this integration to provide better analytics about the drivers of health care costs and improved employer plan management information.

At this time we recommend that the County accept Kaiser's 2008 renewal position, but continue to demand from Kaiser improved reporting. Specifically we recommend that the County pursue these actions:

- Pursue Kaiser's commitment to work with County Management on CMGOs and to provide quarterly County plan analysis via the Partnership in Health (PIH) and Periodic Utilization Report (PUR) reports. We understand that the County has already engaged Kaiser to move forward with these reviews and initiatives
- Push Kaiser to provide more current utilization data, similar to the timing provided by the other health plans. Since renewals are still impacted by the average health plan results, Kaiser should also tie the emerging County results to changes in the Southern California health plan
- Require that Kaiser provide a financial valuation of resource utilization changes tied to patient encounter (claims) data. The financial valuation should include both the dollar impact of positive and negative utilization changes and how those dollars impact the renewal results. It is also essential for Kaiser, like the other carriers, to report loss ratios on a quarterly basis; the loss ratio should show the relationship between paid premiums and the dollar value of patient encounter (claims) data for the period
- Expect Kaiser to provide more detailed and relevant utilization information leveraging the power of their integrated system to answer "why" utilization is changing, in addition to "how" it is changing
- Require that Kaiser provide a detailed analysis of all utilization changes that have a +/- 2% renewal impact in comparison to Kaiser's average Southern California health plan result, even if the overall renewal results are within or better than the CMGO targets
- Require that Kaiser fully document the renewal and utilization impact of any coding/fee schedule changes – as future changes in these areas could impact the "baselines" derived from current utilization

Please let us know if you would like to discuss any of these recommendations in more detail.

MERCER
Health & Benefits

Sincerely,

Marci Burns

Marci Burns

Copy:
Frank Frazier, County of Los Angeles
Bill Lynes, County of Los Angeles
Bill Scott, Mercer
Jeff Whitman, Mercer

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WILLIAM T FUJIOKA
Chief Executive Officer

February 21, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

REPORT REGARDING SINGLE RATING POOL FOR KAISER

On September 11, 2007, the Board of Supervisors directed the Chief Executive Officer to retain an actuary to determine the merits of establishing a single rating pool for the County's Kaiser population. This would effectively combine the represented and non-represented employee populations into one group for purposes of negotiating annual premium rate adjustments for the Kaiser program. This memo provides the actuary's report (attached) and our recommendations based on that report.

Single Rating Pool Not Recommended

We do not recommend that the County combine the represented and non-represented Kaiser populations into a single rating pool. The principal reasons are as follows:

- Our consulting actuary (Mercer) points out that a single rating pool would not reduce the overall premium expense for Kaiser or the overall benefit utilization on which the premiums are ultimately based. There would be no new economy of scale (i.e. no reduction in administrative costs) that has not already been realized by the County. Total expense to Kaiser would remain the same.
- Although total premium expense would remain the same, a single rating pool would necessarily change the rates that would otherwise apply to the sub-populations comprising the pool (i.e. the Choices, Options, and Flex/MegaFlex populations). However, there would be winners and losers in that calculation, and that situation would likely flip flop from year-to-year. For example, combining the groups in 2008

would have decreased the Flex/MegaFlex premium rates and increased Choices and Options premium rates. In 2007, the circumstances would have been reversed.

- The creation of a single rating pool would be the proper subject of bargaining with employee representatives. Even changes affecting only non-represented employees, such as changes in benefit options or co-pays, could be subject to bargaining to the extent they impact the overall pool. The County's current fringe benefit agreements with the Coalition of County Unions and SEIU, Local 721, do not expire until September 30, 2009.

For these and other reasons pointed out in the attached Mercer report, we do not recommend pursuing a single rating pool.

Additional Instruction in the September 11, 2007 Board Order

The aforementioned Board order also instructed the Chief Executive Officer to form and lead a taskforce comprised internally of the Departments of Human Resources, and the Auditor-Controller working in concert with Mercer, to actively solicit participation from other local governmental jurisdictions to:

- Examine the feasibility of forming a Statewide consortium of local governmental bodies seeking to obtain industry-standard data, which would validate increasing healthcare insurance rates from Kaiser Permanente and any other insurance providers;

- Examine the opportunities for the Los Angeles County to implement innovative healthcare insurance cost savings initiatives beyond our Cost Mitigation Goals and Objectives Program consisting of programs including, but not limited to, those currently utilized by other large employers, public and private; and

- Determine the best legislative alternatives, at both State and Federal levels, which would mandate full disclosure of industry-standard information, allowing the County to validate Kaiser Permanente and other insurers' healthcare rates.

We will need additional time to complete the work on these issues and we will provide you with a follow-up report within 60 days.

If you have any questions, please call me or your staff may contact Wayne Willard of this office at 974-2494.

WTF:DL:WGL
WW:df

Attachment

c: Executive Office, Board of Supervisors
Auditor-Controller
County Counsel
Human Resources

William H. Scott
Principal

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MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

November 14, 2007

Frank Frazier
Chief Executive Office
County of Los Angeles
500 West Temple Street
526 Hall of Administration
Los Angeles, CA 90012

Subject: Single Rating Pool - Kaiser

Dear Frank,

The County requested Mercer's opinion about whether a single rating pool with Kaiser would result in a better rate for the County. This letter provides our assessment of the likely impact of such a pool to the County's rates.

We do think that Kaiser would agree to a single risk pool for the County; however, they may further push the issue of contribution risk adjustment or buy-downs (similar to those that are currently in place for Flex/MegaFlex).

We expect that a single risk pool approach would result in the same total premium cost to the County; however, the cost to each group (Options, Choices, Flex/MegaFlex) would change based on cross subsidies created by combining the two current rating pools. In any given year, Flex/MegaFlex rates could support the Options/Choices rates - or vice versa. A single rating pool would not change the overall utilization which Kaiser uses to establish the County's rates in total; currently the total utilization is split into two groups (Options/Choices and Flex/MegaFlex). The County already receives the full benefit of its combined size when Kaiser determines the administrative charges built into the rate.

Most of a blended rate/rate increase would be driven by the Options/Choices population, as the enrollment ratio is roughly 10 Options/Choices members to 1 Flex/MegaFlex member. So, any rate change for Flex/MegaFlex that is spread across the Options/Choices population would have a small impact on the Options/Choices renewal, whereas a rate change for the Options/Choices would have a large impact on the Flex/MegaFlex renewal.

Although a single risk pool is not expected to impact the overall Kaiser premium, we do think there would be a number of challenges associated with this change, including:

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

1. The establishment of a single pool would be subject to union bargaining
2. Kaiser would probably insist on retaining the risk load on certain populations - and a determination would need to be made about whether it would be appropriate to allocate this load across all groups (for example, should the Flex/MegaFlex or Options populations support the 2% load placed on Choices?)
3. A single risk pool for the Kaiser enrollment does not address the issue of the risk pool split for the Choices population between the County sponsored plans and the union sponsored plans.

Mechanics for a blended pool would need to be determined. There are at least 2 potential approaches:

- Option (A): blend all revenue to the same starting per member rate, which will blend the utilization for all populations together, and then make adjustments for benefit design differences
- Option (B): retain current differences in starting per member rates (which reflect benefit design differences and utilization differences to this point) and then apply a blended renewal percentage to all groups.

The illustrative cost impact for each option, applied to the 2008 renewal, is illustrated in the attached exhibit.

If you would like to discuss this issue in more detail, please let us know.

Sincerely,

Will H Scott

William H. Scott, ASA, MAAA
Principal

Copy:
Marci Burns, Mercer
Jeff Whitman, Mercer
Marian Hall, County of Los Angeles
Bill Lynes, County of Los Angeles

Enclosure

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County of Los Angeles

Illustrative 2008 Renewal: Estimated impact of single Kaiser renewal pool

Option A: ***PMPM costs are blended for all groups; adjustments are then made to differentiate benefit design and unique costs (Choices 1.5% load) by group***

Option B: ***Overall renewal action is blended for all groups; adjustments are then made to differentiate renewal credits for benefit design changes and to adjust for unique costs (Choices 1.5% load) by group***

Final 2008 Renewal	Enrollment	2008 Annual Premium	2008 Renewal
Flex/MegaFlex			
Total/Premium	4,858	$37,240,000	15.1%
Options			
Total/Premium	24,794	$205,890,000	0.2%
Choices			
Total/Premium	10,761	$96,360,000	2.2%
Total	40,413	$339,490,000	2.2%

Illustrative	Option A		Option B	
	2008 Annual Premium	2008 Renewal	2008 Annual Premium	2008 Renewal
Flex/MegaFlex				
Revised annual premium/renewal increase	$34,140,000	5.5%	$33,440,000	3.3%
Annual Premium Change for blending	($3,100,000)		($3,800,000)	
Options				
Revised annual premium/renewal increase	$207,550,000	1.0%	$208,410,000	1.4%
Annual Premium Change for blending	$1,660,000		$2,520,000	
Choices				
Revised annual premium/renewal increase	$97,800,000	3.8%	$97,640,000	3.6%
Annual Premium Change for blending	$1,440,000		$1,280,000	
Total	$339,490,000	2.2%	$339,490,000	2.2%

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WILLIAM T FUJIOKA
Chief Executive Officer

September 8, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

STATUS REPORT ON SEPTEMBER 11, 2007 BOARD ORDER REGARDING COST OF EMPLOYEE HEALTH CARE

This is to provide you with a second status report on actions being taken in response to the above Board order. The September 11, 2007 Board action was taken in connection with the Board's approval of the 2008 premium rates for the County's health insurance plans. There was, at the time, considerable frustration with the cost of the health plans, and volatility of those costs, particularly with regard to the Kaiser Plan.

The Board order directed the Chief Executive Office to:

1) Determine the feasibility of forming a consortium of other public agencies to address problems regarding data disclosure by health insurance carriers;

2) Pursue legislative approaches to require better disclosure of data; and

3) Examine opportunities to implement innovative cost saving initiatives that go beyond the "Cost, Mitigation, Goals and Objectives (CMGOs)" set out in the fringe benefit agreements with Local 721 and the Coalition of County Unions.

The Board also directed the Chief Executive Office to look at the feasibility of combining the County's represented and non-represented Kaiser groups into a single consolidated group. That idea was determined not to be feasible for reasons outlined in an initial status report on February 21, 2008.

Situation Much Improved for 2009

We are now one year removed from the Board's last discussion on this matter. We have an item on the September 9, 2008 agenda, which is being continued to September 16, 2008, that contains recommendations regarding the 2009 premium rates for County's health, dental and other group insurance plans. As indicated in the letter transmitting those recommendations, our health insurance consultant, Mercer, is reporting that all of the 2009 premium rates are justified in their view, including the Kaiser rates.

Mercer is also reporting that Kaiser's data disclosure continues to improve and that the level of detail provided this year is significantly improved over last year. In addition, all of the 2009 premium rates for all of the health plans, including Kaiser, are supported by Local 721 and the Coalition of County Unions. This was not the case one year ago. More detail on these matters is contained in our Board letter.

The Kaiser Argument

Despite the progress in the past year, the history with Kaiser costs has been difficult. However, Kaiser argues two points in this regard:

- Their failure to provide the cost detail historically demanded by the County and normally provided by other carriers is due to a technical inability to provide the information, not an unwillingness to do so.

- The relatively high cost of Kaiser is due to a disproportionately high disease burden within the Kaiser population versus the populations of the other County health plans.

With regard to the first point, Kaiser is, in fact, unlike any other HMO. Other HMOs are essentially composed of a contractual network of hospitals, medical groups, and other providers. These entities typically have a relatively well established capability to provide detailed billing statements and other information essential to tracking actual claims experience by individual or group. Kaiser, in contrast, owns its own facilities and hires its own employees, generally. Kaiser is much less dependent on contractual relationships with other providers and, therefore, has had less need, historically, to develop the type of detailed benefit utilization information that can be used for rate justification purposes. In our view, Kaiser is still in the final phases of a long-term evolution away from a legacy practice that involved the charging of a single "community rate" to all of its clientele.

Kaiser is improving and becoming more like other HMOs in terms of data production and disclosure. As noted above, its data production this year was sufficient to permit a finding by Mercer that the 2009 rates are justified. Although we appreciate the progress, the situation is more likely due to Kaiser's need to compete with other HMOs than any demands from the County or other employers. The old community rating idea, and the variations on that theme that pertained in recent years, was losing too many good health risks to other insurers who were experienced rating individual groups and offering lower premiums to the groups with the least disease burden. Mercer estimates that it will be at least two years before Kaiser has its systems capabilities at 100 percent of where it would like them to be.

Study of Disease Burden

With regard to Kaiser's contention that they have a disproportionate share of the disease burden within the County population it covers, we believe we should determine if Kaiser is right. If Kaiser is right, we need to know to what extent this explains the difference in price between Kaiser and the other County health plans. If Kaiser is wrong, we need to know that too. We have, therefore, retained Mercer to conduct a "risk study" that will measure the relative morbidity in the County sponsored and union sponsored County approved plans.

The Mercer risk study will be accomplished through using a widely accepted actuarial technique that relies on prescription pharmacy information to identify the disease burden within each plan. Based largely on the types and amounts of prescription drugs used by the population in each plan, it is possible to determine the overall morbidity for that group, and to compare it to other groups. It is also possible to determine if the price differences between the plans for each group are attributable partially, or fully, to differences in morbidity, or other factors having nothing to do with morbidity. It is even possible to predict future morbidity with some certainty for up to one year into the future. Fortunately, prescription drug information is relatively easy for all of our insurers to produce, including Kaiser. In fact, Kaiser was one of the first insurers to provide this information.

The Mercer risk study will complement the traditional rate setting methodology we went through this year and in prior years. It will produce a total of five years of actual data from 2003 through 2007. Based on this information, we will have an assessment of the relative disease burden in each County sponsored health plan for each of these five years based on actual data, and an estimate of the disease burden in 2008. We do not expect the union sponsored plans in the Coalition of County Unions to participate in this effort. If they do not, Mercer will make an estimate of the disease burden in those plans based on census information.

We are currently in the process of completing confidentiality agreements with the affected carriers. Absent unforeseen problems in that area, we expect to have the risk study completed and a report back to the Board within 90 days.

Given this development, and the overall progress Kaiser has made with regard to data disclosure, we believe it is premature to pursue either the formation of a state-wide consortium on data disclosure, or legislative alternatives aimed at the same problem. Pending any direction to the contrary by the Board, we will place those parts of the September 11, 2007 Board order on hold and will address them further in the report back on the risk study.

Cost Saving Initiatives

With regard to cost savings initiatives savings that go beyond CMGOs, we have retained a wellness consultant to develop a long-term wellness strategy and a related measurement model and evaluation plan. Prior to the start of the consultant, wellness efforts were well underway. On September 28, 2007, Department Heads were called to action and asked to designate a senior level manager (Wellness Program Manager) to spearhead wellness in each county department. Since then, we have provided departmental Wellness Program Managers with necessary tools and training to assist them in their efforts.

In October 2007, we launched countywide wellness initiatives in an effort to improve the health of employees and their families, improve employee productivity, reduce absenteeism and reduce health care costs. Wellness Program Managers were asked to implement the negotiated wellness program, "My Health is My Wealth", for employees represented by Local 721. The program contains internet-based health assessments with personalized feedback to help employees improve their health. Small cash rewards are paid on completion of the programs to encourage participation. We were able to initially negotiate no cost to the County for these programs.

We have also implemented walking programs with free pedometers from Local 721's carriers. A similar program was launched for non-represented employees in February 2008. In July 2008, the Kaiser internet based reward and walking programs were implemented for Kaiser enrollees represented by the Coalition of County Unions (CCU). To date, over 4,000 Health Risk Assessments have been taken by County employees and their dependents.

Other wellness initiatives include: increasing the number of wellness fairs held throughout the County each year from four to six; implementation of onsite lunch and learn seminars with carrier presentations held at outlying County departments; and monthly lunchtime webinars. The most recent initiative we are pursuing to encourage prevention and early diagnosis of chronic conditions is waiving copays for preventive care services for employees represented by Local 721 and non-represented employees. At this time, the CCU has decided not to implement this benefit with both of their carriers.

If you have any questions, please call me or your staff may contact Wayne Willard of this office at 974-2494.

WTF:DL:WGL
WW:MH:df

c: Executive Office, Board of Supervisors
Auditor-Controller
County Counsel
Department of Human Resources

COUNTY OF LOS ANGELES
DEPARTMENT OF HUMAN RESOURCES

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MICHAEL J. HENRY
DIRECTOR OF PERSONNEL

November 13, 2008

To: Each Supervisor

From: Michael J. Henry
Director of Personnel

Subject: **REPORT ON COUNTYWIDE WELLNESS PROGRAM**

As instructed by your Board order on September 11, 2007, to examine opportunities to implement innovative cost saving initiatives that go beyond the "Cost Mitigation Goals and Objectives (CMGOs)" set out in the fringe benefit agreements with SEIU Local 721 (Local 721) and the Coalition of County Unions (CCU), we have built a robust wellness program utilizing carrier programs and internal resources. This is to provide you with information on the enhanced Countywide Wellness Program.

Call to Action

In a joint signature memo on September 28, 2007, the Chief Executive Office (CEO) and I announced a new negotiated wellness program for Local 721, "My Health Is My Wealth", as a first phase of an overall wellness initiative that will impact all County employees. We also asked Department Heads to designate a Wellness Program Manager to spearhead wellness in each County department. Meetings for the Wellness Program Managers are held bi-monthly and include training on new additions to the program, "best practices" presentations, and guest speakers on health and productivity management.

Since the call to action, we are please to report that 39 departments have designated a Wellness Program Manager and 25 have formed active wellness committees to encourage employees to make healthy lifestyle choices and reduce incidents of chronic diseases. We have outreached to all Wellness Program Managers and asked that a Local 721 represented County employee is included on every wellness committee. Every department with a wellness committee has complied with this request. In addition, five County departments were recognized on October 20, 2008, by the CEO and Department of Human Resources for their wellness efforts. They are Consumer Affairs, Registrar-Recorder/County Clerk, Public Health, Public Social Services (DPSS), and Public Works. Your Board also honored DPSS at your October 21, 2008, Board meeting for their efforts in promoting wellness within their department.

Elements of the Countywide Wellness Program

- "My Health Is My Wealth" is a comprehensive initiative developed through a collaborative labor management partnership in a Sub-Committee on Wellness with Local 721. It is one component of the Countywide Wellness program and includes a Wellness Governance document that was approved by both management and labor. The Sub-Committee has met nearly every month since its inaugural meeting on March 8, 2007.

- Internet-based carrier programs to assess current health status and risks, improve health status, manage chronic diseases, and provide healthy lifestyles resources such as exercise and fitness guidelines, healthy recipes, and weight management tips. Employees can receive $50 reward cards as an incentive for participating.
- Similar wellness program enhancements have been rolled out to non-represented employees in February 2008, and to the CCU Kaiser participants in July 2008.
- Monthly Webinars, onsite "Lunch and Learns" and carrier presentations at outlying departments, and walking programs sponsored by Kaiser and PacifiCare for their participants.

Attached for your review is a detailed listing of current wellness program offerings and activities.

Next Steps

In July 2008, we retained a wellness consultant, Mercer Human Resource Consulting (Mercer), to develop an overarching Countywide strategy and to develop metrics to measure and report the results of our efforts. Mercer completed an inventory of available programs and resources and is currently developing an analytics piece to provide the basis for the strategy. We expect to have the strategy completed in early 2009. However, in the meantime, your office may be visited by Local 721 with their concerns that not enough is being done. Local 721 is aggressively pushing to add additional components now; however, it is important that we wait for Mercer's findings and recommendations so that the wellness program is truly a Countywide endeavor. Once the strategy is complete, we will invite the unions to participate.

In addition, our contract with Buck Consultants, LLC, our benefits communications consultant, calls for the development of a Countywide-themed quarterly wellness newsletter designed to target all County employees. The first newsletter will go out to County employees beginning in first calendar quarter 2009. The second quarterly newsletter will incorporate the Countywide wellness strategy that Mercer recommends.

If you have any questions, please call me or your staff may call Marian Hall, Assistant Director, Department of Human Resources, at (213) 738-2222.

MJH:MLH
MEG:sl

Attachment

c: Chief Executive Officer
Deputy Chief Executive Officers
County Counsel
Executive Officer, Board of Supervisors

H: BOS Wellness Status.11.13.08

Attachment

WELLNESS PROGRAM ELEMENTS

CARRIER PROGRAMS

- Anthem Blue Cross, Kaiser Permanente and PacifiCare web-based wellness programs offer a wide array of tools and resources. Participants can take an online Health Risk Assessment (HRA). By answering specific questions about their specific lifestyle choices and disclosing current health status, a plan is developed to improve health indicators, such as blood pressure, glucose, or smoking. Participants are rewarded with a $50 gift card for completing the HRA.
- Kaiser and PacifiCare offer an additional $50 reward card for taking an online healthy lifestyle program, such as diabetes, weight, and cardio health management.
- Kaiser and PacifiCare offer members free enrollment into walking programs including free pedometers (limited quantities).
- Additional online tools are available, such as videos on health topics, healthy recipes, discounts for health club memberships.

WELLNESS FAIRS

- Seven Fairs held in 2008 at various County facilities.
- Wellness Fairs are a comfortable and fun way for employees to collect valuable health information. The Fairs are intended to encourage employees to go to their doctors regularly and be responsible for their health.

"READY TO GO" PROGRAMS, presented to Wellness Managers during 2008 at Quarterly Wellness Workshops; facilitated by the Department of Human Resources

PacifiCare – Monthly Health Topics

- Six-month online program featuring monthly health topics. (i.e., Asthma, Diabetes, Depression, Heart Health, Nutrition, Sun Safety)
- Each month a featured health topic will be posted online (mini-newsletter). Participants read about the topic and complete an online quiz/survey. Monthly drawings will be held for employees submitting a completed quiz.
- Employees participating in all six monthly health topics will receive a small incentive reward (i.e., fitness kit, pedometer or stress ball) and will be entered into a grand prize drawing.

Kaiser Permanente – Wellness For You

- All County employees may take a free health class at a Kaiser facility. Classes include: Asthma, Diabetes, Depression, Stress Reduction & Relief, Managing Chronic Conditions, Smoking Cessation, Lifestyle and Weight Management. All participants receive a small incentive reward.
- County departments may request a customized walking program. Kaiser provides walking route maps for any County facility including detailed information such as distance of routes, number of steps taken per route, and rate of caloric burn.
- Quarterly drawings are held for departments and employees participating in wellness activities.

CIGNA – American Cancer Society Active For Life

- Ten-week online program encourages employees to be more active on a regular basis by setting individual goals and forming teams for motivation and support. Individuals are rewarded with a small prize as teams progress toward their goals.
- Participants set their own personal activity level goals. Goals can be moderate (such as walking, yard work, or taking the stairs) or more intense (such as running or tennis).
- Participants receive prizes when overall goals are met.
- Upon program completion, departments may renew the ten-week program without carrier-provided incentives.

"LUNCH & LEARN" SEMINARS

- 45 minute lunch time seminar related to the prevention and management of chronic diseases and other health topics such as: Asthma, Better Nutrition, Diabetes, High Blood Pressure, Stress Reduction and Relief, and Weight Management. Followed by a 10-15 minute session of questions and answers.
- Held at any County facility; open to all County employees. Employees are encouraged to enjoy their lunch during the seminar.
- Seminars are presented in an efficient, informative, and entertaining manner. They are designed to not disrupt the workday nor be labor intensive to participate in.
- Monthly Healthy Connections seminars are held at the Hall of Administration for employees at the Civic Center.

ONSITE CARRIER PRESENTATIONS

- County-sponsored health plan providers (Anthem Blue Cross, Kaiser Permanente, and PacifiCare) provide onsite presentations on their respective wellness programs.
- Carriers provide materials detailing program specifics and available incentives.

WEBINARS

- Implemented in March 2008 - monthly 45 minute online and dial-in lunchtime seminars, easily accessible from employees' workspace or in a conference room for a group setting. Held the second Wednesday of every month.
- Topics presented support the prevention and management of chronic diseases such as: Asthma, Better Nutrition, Diabetes, Heart Health, High Blood Pressure, Stress Reduction and Relief, and Weight Management.

OTHER

- Exercise classes at the Hall of Administration in Room B-62. Classes are taught by certified, private instructors or County volunteers. Classes offered include Salsa, Yoga, and Pilates.
- Weight Watchers at Work – A Weight Watchers leader will come to the workplace and provide experienced guidance at weekly meetings. Weight Watchers charges a fee to participants.

Additionally, departments implement decentralized wellness activities that meet the schedules and needs of the department.

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WILLIAM T FUJIOKA
Chief Executive Officer

September 24, 2009

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

RISK-ADJUSTMENT STUDY OF COUNTY MEDICAL PLANS

This is to provide you with the attached report entitled "Risk–Adjustment Study of Medical Plans." This report was prepared by our health insurance consultant, Mercer, at the request of the Chief Executive Office. It shows the relative disease burden within the County's various medical plans, and the extent to which the disease burden explains the differences in the costs of the plans.

The need for this analysis was triggered by concern over the rising costs of the Kaiser Health Plan, the County's most expensive HMO. It was also triggered by claims from Kaiser that its costs are attributable to a membership base that is sicker, on average, than the populations covered by the County's other medical plans. Kaiser asserts that their sicker population requires a higher level of expenditure on medically necessary services.

What the Study Found

The study used a widely accepted actuarial technique that is based on a combination of age and gender comparisons and prescription drug usage. By looking at the types and quantities of drugs used by a particular group, it is possible to measure the current level of morbidity within that group, and to predict that morbidity for up to one year in advance. The study measured actual morbidity for the 2005-2007 period, and projected morbidity for 2008.

Key findings include the following:

- **Kaiser covers a relatively sick population:** Kaiser's assertions in this regard have been correct. Kaiser covers a population that is, on average, 20% sicker than the populations in the other County sponsored HMOs. The difference is persistent over the period of the study, and the trend appears to be getting worse.

- **Morbidity explains costs:** The study actuarially adjusts the premiums for the various medical plans to neutralize the effects of disease burden. When these adjustments are made, Kaiser is no longer the most expensive HMO. In fact, it becomes the lowest cost HMO in most instances.

- **Union sponsored plans have the lowest morbidity:** The County approved union sponsored medical plans include the ALADS Plans, the Fire Fighters Local 1014 Plan, and the CAPE Plans. The populations covered by these plans are, on average, 10% healthier than the populations in the County sponsored plans.

Two additional points should be noted. First, the union sponsored plans did not provide drug usage information for this study. Consequently, Mercer evaluated these plans by using age and gender information, exclusively. This information is readily available within the County's payroll and benefit administration systems.

Also, a similar study was previously completed by Mercer for years 2003 and 2004 with projections for 2005. The prior study similarly found that Kaiser has relatively high rate of morbidity within its County employee population. The two studies, together, show a clear pattern.

<u>Why the High Morbidity in Kaiser?</u>

A high disease burden can be the result of too many sick people within a given population, or too few healthy people. Either situation creates a high concentration of high risk individuals relative to the size of the group. In Kaiser's case, we believe the problem is a lack of healthy people. The healthier employees are simply not enrolling in Kaiser at the rates they have in the past. This, no doubt, is the result of the high cost of Kaiser and the fact that lower cost coverage is readily available through the County's cafeteria benefit plans.

Over the past ten years, Kaiser's membership has dropped from approximately 64% of the eligible County population to approximately 49%. That fact combined with a disease burden that is high, and trending even higher, is conclusive evidence that the employees leaving the program are the healthier employees. Moreover, it is only reasonable to conclude that the relatively healthy "low users" of medical services would be the least willing to pay more than is necessary for the coverage they are seeking. In the case of represented employees, lower cost coverage is available from CIGNA, PacifiCare, and the union sponsored plans.

It should also be noted that the tendency for medical plan price to steer employees into one plan versus another is especially acute under the County's cafeteria benefit environment. Under all of the cafeteria plans, including the Choices and Options Plans, money not spent on medical plan premiums is returned to the employee in the form of income. In 2009, for example, a family subscriber represented by the Coalition who chooses Kaiser over the CIGNA HMO pays $3,251 per year more for that decision. This money converts to additional take-home pay if the individual changes to CIGNA.

Kaiser's problem is a kind of Catch 22. The healthy population it needs cannot re-establish itself within the plan in sufficient magnitude until the price of the coverage comes down, but the price cannot come down until the healthy population is already there. Unfortunately, there is no reason to believe this situation will self-correct, or that it will not get worse over time. Absent some form of intervention, we must assume that the Kaiser population will continue to deteriorate, and that the plan will eventually become inviable.

If Kaiser were no longer an option for County employees, all of the risk in the plan, good and bad, would become the risk of the other County medical plans. Therefore, the issue is not how to escape this risk, but how to manage it. This makes this issue bigger than Kaiser, or any one medical plan.

Next Steps

The Kaiser problem is a long-term problem that will require a long-term solution. It may also require some new thinking on how we determine employee costs for medical insurance under our cafeteria benefit plans. We may need to place more emphasis on pricing these benefits in a way that creates a more even spread of risk over the various medical plans. Arguably, employees should pay a price that reflects the value of the plan they choose if the risk were spread properly – even if it is not. Plans with similar benefits should have a similar cost to employees, disease burden notwithstanding.

This issue is further complicated by the fact that some of the County's medical plans are actually benefiting from this problem – at least for now. They are getting the good health risks that Kaiser is not getting. This would include the union sponsored health plans which, as noted above, cover groups that are roughly 10% healthier than other County employees. Therefore, any solution that is brought to bear will have implications for the County's other medical plans. Nevertheless, we intend to fully explore all of the potential long-term solutions with our employee representatives and our insurers.

Response to Prior Board Direction on This Issue

Health insurance costs and Kaiser costs, in particular, have been the subject of considerable Board attention in the past. On September 11, 2007, the Board directed the Chief Executive Office to (1) determine the feasibility of forming a consortium of other public agencies to address problems regarding data disclosure by health insurance carriers; (2) pursue legislative approaches to require better disclosure of data, and (3) examine opportunities to implement innovative cost saving initiatives beyond those in the fringe benefit agreements with the County's Unions. In a September 8, 2008 status report, we indicated that it was premature to form a state-wide consortium on data disclosure or pursue legislative alternatives aimed at data disclosure pending the outcome of the Mercer risk study.

We believe that the Mercer risk study effectively resolves the first two directives issued in 2007. We now are in a much better position to understand the reasons for the differences in cost between Kaiser and the other medical plans. We now know that disease burden is the problem, not data disclosure. However, with regard to data disclosure, Mercer has reported that Kaiser's capturing and reporting of data has improved significantly over the past two years. For the current 2009 premium rates and the proposed 2010 premium rates, Mercer has reported Kaiser's rates as justified.

With regard to the third directive in the above Board order, we are also pursuing wellness and other cost savings initiatives with our employee representatives. One of the products of this effort was implemented on January 1, 2009 when we recommended, and the Board approved, a waiver of office co-pays for various preventive health care services. We expect to make more wellness related recommendations in the future. The work in this area will probably never stop.

Mercer's report was shared in draft form with the various insurers for the County sponsored plans and with the Coalition and Local 721 and their consultants. The attached final report includes a summary of the responses from the various stakeholders, including a complete copy of the responses from the union consultants. There are a variety of observations and opinions included in these responses, but no one found any technical defect with the study.

Please call me if you have any questions or your staff may contact Wayne Willard at (213) 974-2494, or at wwillard@ceo.lacounty.gov.

WTF:SRH:DL
WGL:WW:df

Attachment

c: Executive Office, Board of Supervisors
Auditor-Controller
County Counsel
Department of Human Resources
SEIU Local 721
Coalition of County Unions
CIGNA
Kaiser
Anthem Blue Cross
PacifiCare
Fickewirth and Associates
Rael & Letson
Mercer

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